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# INSPECTOR GENERAL

*U.S. Department of Defense*

OCTOBER 12, 2016



## Consolidation Needed for Procurements of DoD H-60 Helicopter Spare Parts

INTEGRITY ★ EFFICIENCY ★ ACCOUNTABILITY ★ EXCELLENCE

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# Results in Brief

## *Consolidation Needed for Procurements of DoD H-60 Helicopter Spare Parts*

October 12, 2016

### Objective

We determined whether DoD was effectively managing the procurement of H-60 helicopter (H-60) spare parts. The Army, Navy, Air Force, and U.S. Special Operations Command all fly different versions of the H-60 for troop transport and personnel recovery. We reviewed H-60 spare parts procured on 2,136 DoD contracts and purchase orders from February 2015 through January 2016. During this time, DoD procured 10,047 unique spare parts. DoD spent at least \$394.9 million on H-60 spare parts.

### Finding

DoD did not effectively manage the procurement of H-60 spare parts. Specifically, DoD did not consolidate its purchase of 2.9 million H-60 spare parts to maximize its market leverage, such as receiving quantity discounts. The lack of consolidation occurred because the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics did not ensure that the Army, Navy, U.S. Special Operations Command, and Special Operations Forces Support Activity fully executed Base Realignment and Closure Act 2005 Recommendation 176 by transferring H-60 spare parts procurements to the Defense Logistics Agency (DLA). Recommendation 176 directed the Military Services to use DLA as the single, integrated procurement manager for spare parts, but that did not occur.

### Finding (cont'd)

In addition, DLA did not appropriately consolidate its H-60 spare parts procurements where practicable. Section 2384a, title 10, United States Code requires, where practicable, agencies to procure supplies in quantities that will result in the total and unit cost most advantageous to the United States. However, DoD officials procured the same H-60 spare parts on different contracts, often at different prices, which occurred or potentially occurred in 1,319 instances.

### Recommendations

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics perform a cost-benefit analysis to determine whether the procurement responsibility for all H-60 spare parts, including those procured under performance-based logistics and contractor logistics support contracts, should be transferred to DLA, as originally required by Base Realignment and Closure Act 2005 Recommendation 176. If the Under Secretary determines that H-60 spare parts procurement responsibility should be transferred to DLA, DoD should review and update its policy regarding spare parts procurements. If DoD determines it should not transfer the procurement responsibility to DLA, it should notify Congress of its decision and justification.

We also recommend that the Director, DLA, collect and analyze data related to the contracts and purchase orders used to procure H-60 spare parts and take steps to consolidate these procurements where practicable to take advantage of quantity discounts and reduce administrative costs.

### Management Comments and Our Response

The Acting Assistant Secretary of Defense for Logistics and Material Readiness, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics, did not address the specifics of the recommendations to





# Results in Brief

## *Consolidation Needed for Procurements of DoD H-60 Helicopter Spare Parts*

### **Management Comments (cont'd)**

perform a cost-benefit analysis, review and update DoD policy, and notify Congress if needed. The Acting Assistant Secretary stated that Base Realignment and Closure Act 2005 Recommendation 176 does not apply to performance-based logistics and contractor logistics support contracts. In addition, cost-benefit analyses are required prior to the award of a performance-based logistics and contractor logistics support contract. The Under Secretary of Defense for Acquisition, Technology, and Logistics does not plan to conduct a DoD-wide cost-benefit analysis or notify Congress that it will not transfer the procurement responsibility to DLA. We request that the Acting Assistant Secretary provide additional comments to describe what actions will be taken to perform a cost-benefit analysis and determine

whether the procurement responsibility for all H-60 spare parts, including those procured under performance-based logistics and contractor logistics support contracts, should be transferred to DLA. Based on those actions, the Under Secretary of Defense for Acquisition, Technology, and Logistics should review and update DoD policy and notify Congress if needed.

The Director, DLA Acquisition, responding for the Director, DLA addressed all specifics of the recommendation to collect and analyze data related to H-60 spare parts contracts and purchase orders and take steps to consolidate spare parts procurements. No further comments are required. Please see the Recommendations Table on the next page.

### ***Recommendations Table***

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense for Acquisition, Technology, and Logistics	1.a, 1.b, 1.c	
Director, Defense Logistics Agency		2

Please provide Management Comments by November 14, 2016.



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**INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500**

October 12, 2016

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
DIRECTOR, DEFENSE LOGISTICS AGENCY

SUBJECT: Consolidation Needed for Procurements of DoD H-60 Helicopter Spare Parts  
(Report No. DODIG-2017-002)

We are providing this report for review and comment. DoD spent at least \$394.9 million on 2,136 contracts and purchase orders over a 1-year period to procure spare parts for the H-60 helicopter. DoD did not maximize its market leverage and consolidate procurements for H-60 spare parts where practicable. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. DoD Instruction 7650.03 requires that recommendations be resolved promptly. Comments from the Director, Defense Logistics Agency Acquisition, responding for the Director, Defense Logistics Agency, addressed all specifics of the recommendation and conformed to the requirements of DoD Instruction 7650.03; therefore, we do not require additional comments. The Acting Assistant Secretary of Defense for Logistics and Material Readiness, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics, did not address the specifics of Recommendations 1.a, 1.b, and 1.c. We request additional comments to the final report on Recommendations 1.a, 1.b, and 1.c by November 14, 2016.

Please send a PDF file containing your comments to [audclev@dodig.mil](mailto:audclev@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We cannot accept the /Signed/ symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9077 (DSN 664-9077).

  
Jacqueline L. Wicecarver  
Assistant Inspector General  
Acquisition and Sustainment Management

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# Introduction

## Objective

We determined whether DoD effectively managed the procurement of H-60 helicopter (H-60) spare parts. See Appendix A for a discussion of the scope and methodology and prior audit coverage related to the audit objective.

## Background

Originally designed for the Army, the H-60 is a twin-engine helicopter that has been in service since 1979. The Army, Navy, Air Force, and U.S. Special Operations Command (SOCOM) all fly different versions of the H-60, as detailed in Table 1.<sup>1</sup>

*Table 1. H-60 Versions by Service or Command*

Service or Command	H-60 Version	Primary Mission	Number of H-60s in Fleet*
Army	UH-60 Black Hawk	Troop transport	2,135
Navy	MH-60 Seahawk	Anti-submarine and surface warfare	506
Air Force	HH-60 Pave Hawk	Personnel recovery	97
SOCOM	MH-60	Special operations	72
<b>TOTAL</b>			<b>2,810</b>

\* Current as of February 2016.

The H-60 is made up of over 114,000 different parts. To keep the helicopter operational, spare parts are purchased to repair or replace worn-out parts. Spare parts in this report are referred to as either depot-level reparable (DLR) or consumables. A DLR is a part that is overhauled or repaired at a depot. A consumable spare part is used and discarded when worn out or broken.

## H-60 Repair and Spare Parts Contracts

Army Contracting Command–Redstone Arsenal (Army), Naval Supply Systems Command Weapon Systems Support (Navy), SOCOM, Special Operations Forces Support Activity (SOFSA),<sup>2</sup> and the Defense Logistics Agency (DLA) used contracts or purchase orders to procure H-60 spare parts from February 2015 through January 2016.

<sup>1</sup> The U.S. Marine Corps and U.S. Coast Guard also fly their own versions of the H-60.

<sup>2</sup> For the purposes of this report, the Army, Navy, SOCOM, and SOFSA will be referred to as Military Activities.

### *Army Contracting Command–Redstone Arsenal*

Army Contracting Command–Redstone Arsenal is a major subordinate command to the U.S. Army Materiel Command. It provides contracting support for acquisition programs. According to Army Contracting Command–Redstone Arsenal officials, they awarded 168 contracts and purchase orders that procured H-60 spare parts. One of those contracts was a contractor logistics support (CLS) contract<sup>3</sup> that supported an Army depot in the overhaul and repair of H-60s.

### *Naval Supply Systems Command Weapon Systems Support*

Naval Supply Systems Command Weapon Systems Support provides the Military Services with program and supply support for weapons systems, such as the H-60, to keep Navy forces mission ready. It awarded one performance-based logistics (PBL) contract<sup>4</sup> to primarily repair MH-60 DLRs and manage the inventory of those spare parts. However, the contractor also could buy DLR parts if replacements were needed. Figure 1 shows a Navy Seahawk MH-60.



Figure 1. Seahawk MH-60 Helicopter  
Source: Navy

<sup>3</sup> Under a CLS contract, the contractor is responsible for the integration of logistics support functions, which could include depot maintenance and procuring spare parts.

<sup>4</sup> PBL is the DoD strategy that is designed to provide assured levels of system readiness. PBL contracts buy performance rather than spare parts or repair actions.

### *U.S. Special Operations Command*

SOCOM was formed to organize, train, and equip Special Operations Forces from the Army, Navy, and Air Force. SOCOM awarded one CLS contract to repair several aircraft and manage the spare-part inventory. The contract included the procurement of H-60 spare parts.

### *Special Operations Forces Support Activity*

SOFSA is the subordinate organization of SOCOM that provides logistical support for special operations forces and their unique equipment. SOFSA awarded a CLS contract in support of special operation forces activities worldwide. The Air Force requested that SOFSA award a task order on that contract to repair two Air Force H-60s. The task order includes the purchase of spare parts to support those repairs.<sup>5</sup>

### *Defense Logistics Agency*

DLA provides the Military Services, Federal agencies, and U.S. allies with logistic, acquisition, and technical services. DLA is responsible for nearly all spare parts required by the Military Services. As of February 2016, DLA managed more than 114,000 spare parts for the H-60. According to DLA, it awarded 1,965 contracts and purchase orders for H-60 spare parts.

## ***Base Realignment and Closure Recommendation***

Base Realignment and Closure (BRAC) is the congressionally authorized process that DoD uses to reorganize its base structure to increase operational readiness and facilitate new business methods. The Secretary of Defense made recommendations for BRAC in May 2005 that included the realignment or closure of military installations. The BRAC Commission evaluated these recommendations and presented its findings, along with its own recommendations, to the President on September 8, 2005. The Commission's recommendations became law on November 9, 2005, and DoD had until September 15, 2011, to complete the implementation of all recommendations.

BRAC Recommendation 176 directed the Military Services to use DLA as the procurement manager for DLRs and consumables, with limited exceptions. According to the BRAC Report,<sup>6</sup> the intent of the recommendation was to make DLA the single source for the procurement of spare parts to obtain maximum market leverage. DLA was responsible for coordinating implementation efforts and certifying on behalf of DoD that DoD completed all actions

<sup>5</sup> We used Web Federal Logistics Information System (WebFLIS) to identify the national identification number associated with spare parts procured on this contract.

<sup>6</sup> DoD BRAC Report, volume 1, part 2, "Detailed Recommendations," May 2005.

related to BRAC Recommendation 176 in September 2011. According to a DLA official, DLA was not responsible for overseeing the execution of BRAC Recommendation 176 after the certification. See Appendix B for the complete BRAC Recommendation 176 language.

### ***Under Secretary of Defense for Acquisition, Technology, and Logistics***

The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (OUSD[AT&L]) establishes policies for acquisition, logistics, maintenance, and sustainment support. It also is responsible for coordinating and exchanging information with DoD components to achieve maximum efficiency in logistics, maintenance, and sustainment support. In addition, OUSD(AT&L) was part of a council that made policy and performed oversight of the entire BRAC process. This included the development and implementation of the recommendations.

## **Review of Internal Controls**

DoD Instruction 5010.40<sup>7</sup> requires DoD organizations to implement a comprehensive system of internal controls that provides reasonable assurance that programs are operating as intended and to evaluate the effectiveness of the controls. We identified internal control weaknesses related to the management of H-60 spare parts procurements. Specifically, the Military Activities and DLA did not consolidate H-60 spare parts procurements where practicable. We will provide a copy of the report to the senior officials responsible for internal controls in the OUSD(AT&L) and DLA.

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<sup>7</sup> DoD Instruction 5010.40, "Managers' Internal Control Program Procedures," May 30, 2013.

## Finding

### Opportunities Missed to Maximize DoD Market Leverage for H-60 Spare-Part Procurements

DoD did not effectively manage the procurement of spare parts for the H-60. Specifically, DoD did not consolidate its purchase of 2.9 million H-60 spare parts to maximize its market leverage to include receiving quantity discounts. This occurred because OUSD(AT&L) did not ensure that the Military Activities fully executed BRAC Recommendation 176 by transferring H-60 spare-part procurements to DLA. In addition, DLA did not consolidate its H-60 spare-part procurements where practicable. As a result, DoD officials procured the same H-60 spare parts on different contracts, often at different prices, which occurred or potentially occurred in 1,319 instances.<sup>8</sup>

### DoD Did Not Effectively Manage H-60 Spare-Part Purchases

DoD did not effectively manage the procurement of 2.9 million spare parts for the H-60 by maximizing its market leverage to include receiving quantity discounts. Market leverage is determined by a number of factors and is affected when DoD purchases larger quantities, takes advantage of full lines of products and services offered, and commits to long-term contractor partnerships. Consolidation of procurement requirements can result in savings to DoD by obtaining quantity discounts from contractors. Prior DoD Office of Inspector General (DoD OIG) and U.S. Government Accountability Office (GAO) reports<sup>9</sup> have identified instances where failure to consolidate spare parts procurements and duplication among available contracts resulted in DoD paying higher prices.

The Military Activities and DLA used at least 2,136 different contracts and purchase orders from February 2015 through January 2016 to purchase H-60 spare parts. These contracts and purchase orders were awarded to at least 590 different contractors. During that time, the Military Activities and DLA spent \$394.9 million for 2.9 million H-60 spare parts, as detailed in Table 2. The Navy's PBL contractor determined which H-60 consumables to procure to support H-60 repairs as well as new DLRs that were needed to replace those that could not be repaired.

<sup>8</sup> There were two contracts that identified spare parts that had the potential to be procured within the period of our review.

<sup>9</sup> See Appendix A for a complete listing of prior audit reports.



*Table 2. Military Activities and DLA Used Thousands of Contracts and Purchase Orders to Procure H-60 Spare Parts*

(FOUO) Procurement Office	Number of H-60 Spare Part Contracts and Purchase Orders	Quantity of H-60 Spare Parts Procured	Amount Spent on H-60 Spare Parts
Army	168		
Navy	1	Unknown	Unknown <sup>1</sup>
SOCOM	1	7	
SOFSA	1	105,730 <sup>2</sup>	4,267,928 <sup>3</sup>
DLA	1,965	329,469	301,033,398
<b>Total</b>	<b>2,136<sup>4</sup></b>	<b>2,941,639</b>	<b>\$394,862,613</b> (FOUO)

<sup>1</sup> The Navy contract is a PBL contract for the repair of Navy H-60s. According to Navy officials, the contract repair costs included labor, overhead, and material. The PBL contractor determined which H-60 consumables to procure to support H-60 repairs as well as new DLRs procured to replace those that could not be repaired. The Navy did not track the H-60 consumables or DLRs the contractor procured.

<sup>2</sup> According to SOFSA officials, this is the total amount of H-60 spare parts procured as of January 31, 2016.

<sup>3</sup> According to SOFSA officials, this is the total amount used for H-60 spare parts as of January 31, 2016.

<sup>4</sup> The Military Activities and DLA identified these contracts and purchase orders. This may not include all contracts or purchase orders for H-60 spare parts.

In addition, the Military Activities and DLA did not take advantage of opportunities to consolidate purchase requests and orders for H-60 spare parts. Table 3 provides examples where the Army paid lower prices on different contracts for higher quantities of the same spare parts.

*Table 3. Comparison of the Quantity of Spare Parts Purchased and the Prices Paid*

(FOUO) Spare Part	Contract and Purchase Order Number	Contract Unit Price	Contract Quantity Procured	Price Difference Between Contracts
Seat Assembly	W58RGZ-13-D-0001		6	\$4,296.81 (62%)
	W58RGZ-12-D-0127		78	
Land Wheel	W58RGZ-13-D-0001		29	\$4,098.30 (127%)
	W58RGZ-15-D-0047		1,150	
Fixed Landing Gear	W58RGZ-13-D-0001		20	\$1,670.58 (69%)
	W58RGZ-15-D-0013		400	
(FOUO)				

## OUSD(AT&L) Involvement Needed for H-60 Spare-Part Procurements

OUSD(AT&L) did not ensure that the Military Activities fully executed BRAC Recommendation 176 by transferring H-60 spare parts procurements to DLA. BRAC Recommendation 176 directed the Military Services to use DLA as the single, integrated procurement manager for DLRs and consumables. According to DLA, this consolidation would leverage the buying power for DoD. In September 2011, DLA certified that DoD completed all actions related to BRAC Recommendation 176. However, 5 years after DLA's certification, the Military Activities continued to procure H-60 spare parts instead of transferring procurement responsibilities.

The Military Activities used at least 171 contracts to procure H-60 DLRs and consumables from February 2015 through January 2016 with the Army procuring the majority of those spare parts. According to an Army Contracting Command–Redstone Arsenal official, the Army implemented BRAC Recommendation 176 in stages, and the last stage did not start until 2015 or 2016. The Army official stated that the Army plans to transfer the procurement of all aviation and missile spare parts, to include H-60 spare parts, to DLA when the existing spare-part contracts end by December 31, 2020, which is over 9 years after DLA certified the completion of BRAC Recommendation 176 actions. An Army official indicated that part of the delay was because some spare parts were already on long-term contracts and those spare parts could not transfer to DLA until the contracts expired. However, the Army awarded 147 contracts for H-60 spare parts after September 2011.

The Navy, SOCOM, and SOFSA had not transferred the DLRs and consumables procured through repair contracts to DLA, to include PBL and CLS contracts.<sup>10</sup> According to an OUSD(AT&L) official, separating the procurement of spare parts from a PBL or CLS contract and transferring those procurements to DLA would extend delivery times and potentially cause readiness problems. In addition, DoD Manual 4140.26, Volume 2,<sup>11</sup> allows the Military Services to acquire consumables under a PBL or CLS contract as long as the spare part is unique to the weapon system.<sup>12</sup> This DoD policy conflicts with BRAC Recommendation 176. DoD needs to perform a cost-benefit analysis to determine whether the procurement responsibility for all H-60 spare parts, to include PBL and CLS contracts, should be transferred to DLA as originally required by BRAC Recommendation 176.

<sup>10</sup> According to a SOCOM official, SOCOM used DLA to acquire H-60 spare parts except when DLA had no inventory or when DLA could not meet operational timelines.

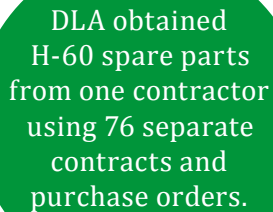
<sup>11</sup> DoD Manual 4140.26, Volume 2, "DoD Integrated Materiel Management (IMM) for Consumable Items: Item Management Coding (IMC) Criteria," September 24, 2010, Enclosure 2, "Procedures," section 2.d.

<sup>12</sup> According to an OUSD (AT&L) official, each version of the H-60 is considered its own weapon system. Therefore, an H-60 spare part is unique if it is not used on more than one H-60 version or any other weapon system.

If DoD determines it should transfer that procurement responsibility to DLA, it should also review and update its policy regarding spare parts procurements. If DoD determines it should not transfer the procurement responsibility to DLA, it should notify Congress of its decision and justification.

## DLA Needs to Reduce Number of Spare Parts Contracts

DLA did not consolidate its H-60 spare part procurements where practicable. Section 2384a, title 10, United States Code (10 U.S.C. § 2384a) requires agencies to procure supplies in quantities that will result in the total and unit cost most advantageous to the United States, where practicable. DLA used at least 1,965 contracts and purchase orders to procure H-60 DLRs and consumables from February 2015 through January 2016.



DLA obtained H-60 spare parts from one contractor using 76 separate contracts and purchase orders.

In addition, DLA awarded more than one contract or purchase order to 273 contractors. For example, DLA obtained H-60 spare parts from one contractor using 76 separate contracts and purchase orders. According to a GAO report,<sup>13</sup> the additional cost of issuing multiple contracts to contractors ranged from \$10,000 to \$1,000,000 per contract due to increased bid, proposal, and administrative costs.

According to a DLA-Aviation official, DLA complied with the law because its policy is to include a provision in each contract solicitation which asks contractors to notify DLA if the quantity to be procured is economically advantageous. This DLA policy is responsive to subpart (b) of 10 U.S.C. § 2384a, which requires contracting officials to ask contractors to identify situations where the Government can obtain better total and unit costs by procuring a different quantity. However, this does not relieve DLA of the responsibility to conduct its own analysis of H-60 spare-part procurements to ensure it is consolidating and procuring those spare parts in quantities that will result in the total and unit cost most advantageous to the United States. Relying on contractors to notify DLA when a better total or unit cost could be obtained is not sufficient for DLA to achieve the goals outlined by 10 U.S.C. § 2384a.

In addition, a DLA Acquisition official stated that DLA processes tens of thousands of transactions each day with a priority to procure items quickly. The high number of contracts or purchase orders could be due to contracting for immediate needs, sporadic requests from the Military Services, and competition. These could be

<sup>13</sup> GAO report GAO-11-318SP, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue," March 1, 2011.

valid reasons for awarding multiple contracts for H-60 spare parts. However, the sheer number of contract actions used by DLA suggests that opportunities to further consolidate procurements exist. DLA should collect and analyze the data related to its contracts and purchase orders that procure H-60 spare parts and take steps to consolidate those procurements where practicable to take advantage of quantity discounts and reduce administrative costs.

## DoD Procured H-60 Spare Parts at Different Prices

DoD officials procured the same H-60 spare part on different contracts, often at differing prices, which occurred or potentially occurred in 1,319 instances for the 1-year period reviewed. Of those 1,319 instances, 1,134 were procured at different prices. Table 4 identifies examples of H-60 spare parts procured on more than one contract from different contractors at different prices.

*Table 4. Same Spare Parts Procured From Different Contractors*

(FOUO) Spare Part	Procurement Office	Contract or Purchase Order Number	Contract Unit Price	Contract Quantity	Price Difference Between Contracts*
Helical Spring	Army	W58RGZ-13-D-0001	████████	16	\$6.95 (414%)
	SOFSA	H92254-09-D-0001	\$2.63	2	
	DLA	SPE5E2-15-V-5978	\$1.68	298	
Liquid Indicator	Army	W58RGZ-13-D-0001	████████	18	\$357.21 (153%)
	SOFSA	H92254-09-D-0001	\$340.24	4	
	DLA	SPE4A6-16-C-0021	\$234.00	614	
Aircraft Seat Cushion	Army	W58RGZ-13-D-0001	████████	10	\$268.78 (58%)
	SOFSA	H92254-09-D-0001	\$699.60	1	
	DLA	SPE4A7-15-C-0387	\$465.10	518	
(FOUO)					

\* The price difference between the contracts was calculated by subtracting the lowest contract unit price and the highest contract unit price.

The Military Activities and DLA also awarded multiple contracts or purchase orders to the same contractor for the same spare part. There were 364 instances of the same spare parts procured from the same contractor at different prices. Table 5 identifies examples of spare parts procured from the same contractor at different prices.

*Table 5. Same Spare Parts Procured From the Same Contractor at Different Prices*

(FOUO) Spare Part	Procurement Office	Contract or Purchase Order Number	Contract Unit Price	Contract Quantity	Price Difference Between Contracts
Blade Main Rotor	DLA	SPE4AX-15-D-9423	\$173,257.00	100	\$15,646.90 (10%)
	Army	W58RGZ-15-C-0049		32	
Modulating Valve	DLA	SPRPA1-14-G-001Y	\$8,900.00	2	\$2,750.90 (45%)
	DLA	SPRRA1-12-D-0131	\$6,149.10	350	
(FOUO)					

## Conclusion

DoD officials did not take advantage of opportunities to consolidate H-60 spare parts procurements and used at least 2,136 different contracts and purchase orders in a 1-year period. As the single source for H-60 spare parts, DLA could limit the number of contracts used to ensure DoD is purchasing spare parts in the most economical manner possible. If DoD transfers and consolidates its contracts and purchase orders for H-60 spare parts, DoD will reduce unnecessary duplication of contract awards and the associated administrative costs. DoD will likely continue to purchase the same H-60 spare parts on separate contracts until DoD executes BRAC Recommendation 176 as planned and consolidates H-60 spare parts procurements where practicable.

## Recommendations, Management Comments, and Our Response

### Recommendation 1

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:

- Perform a cost-benefit analysis to determine whether the procurement responsibility for all H-60 spare parts, including those procured under performance-based logistics and contractor logistics support contracts, should be transferred to the Defense Logistics Agency, as originally required by Base Realignment and Closure Act 2005 Recommendation 176.



- b. Review and update DoD's policy, specifically DoD Manual 4140.26, Volume 2, Enclosure 2, Section 2.d, based on decisions made in response to Recommendation 1.a regarding the procurement of depot-level reparable and consumable spare parts to include those procured under performance-based logistics and contractor logistics support contracts.**
- c. Notify Congress if DoD determines it will not transfer the procurement responsibility to DLA.**

*Under Secretary of Defense for Acquisition, Technology, and Logistics Comments*

The Acting Assistant Secretary of Defense for Logistics and Material Readiness, responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics, disagreed with all parts of Recommendation 1.

For Recommendation 1.a, the Acting Assistant Secretary stated that BRAC 2005 Recommendation 176 does not apply to PBL and CLS repair contracts. PBL and CLS contracts are not procurement contracts for the acquisition of parts, but deliver an outcome based product support strategy to optimize weapon system readiness. Efficiencies are gained when the contractor makes the repair or replace decision incentivizing the provider to find the most cost-efficient solution. The Acting Assistant Secretary stated that the draft report did not consider readiness driven contracting decisions.

The Acting Assistant Secretary also stated that cost-benefit analyses are required prior to award of a PBL or CLS contract. Requiring the DoD to conduct a DoD-wide, cost-benefit analysis would be redundant of the cost-benefit analysis previously conducted and is not feasible given the varying sustainment requirements of the individual Military Services. The Acting Assistant Secretary stated that DoD will follow up with the Military Services to ensure that basic procurement of spare parts managed by the Services is consolidated and sent to DLA for contracting action as required by BRAC 2005.

The Acting Assistant Secretary disagreed with Recommendation 1.b, stating that DoD policies are consistent with BRAC 2005. She also stated that the Department will follow up with the Military Services ensuring that basic procurement of spare parts managed by the Services is consolidated and sent to DLA for contracting actions consistent with BRAC 2005.

Finally, the Acting Assistant Secretary disagreed with Recommendation 1.c for OUSD(AT&L) to notify Congress that it will not transfer the procurement responsibility to DLA. The Acting Assistant Secretary referred to the draft report language that stated DLA certified that DoD completed all actions related to BRAC 2005 Recommendation 176 in September 2011.

### *Our Response*

The Acting Assistant Secretary did not address the specifics of all parts of Recommendation 1. For Recommendation 1.a, we agree PBL and CLS contracts are designed to provide assured levels of system readiness and are not just contracts to procure parts. However, PBL and CLS contractors procure spare parts to support a repair function as well as procure new DLRs to replace items that will not be repaired. BRAC 2005 Recommendation 176 specifically mentioned that the procurement of a new DLR should be transferred to DLA. It states, "This recommendation realigns or relocates the procurement management and related support functions for the procurement of DLRs to DLA." In addition, BRAC 2005 Recommendation 176 does not state that the Military Services can use PBL and CLS contracts to procure spare parts or new DLRs. In fact, BRAC 2005 Recommendation 176 provides limited exceptions for when DLA would not be the procurement manager for DLRs and consumables; however, PBL and CLS were not listed as one of those exceptions.

As stated in the Acting Assistant Secretary's comments, the Military Services prepare a cost-benefit analysis on an individual PBL or CLS contract basis. As a result, the Military Services may not consider the market leverage that could be gained by consolidating all of DoD's H-60 spare parts procurements at DLA. According to a DLA Aviation official, DLA's mission to provide all spare parts is affected by the Military Service's choice to procure spare parts through a PBL. For example, the official stated that DLA's purchasing of Navy Seahawk spare parts has decreased since the Navy awarded the PBL, which negatively impacts the buying power of DLA. It should be noted that of the 2,136 contracts we reviewed, only 4 were PBL or CLS contracts. We believe that performing a cost-benefit analysis for a limited number of H-60 contracts would be practical and helpful in ensuring DoD is purchasing spare parts in the most economical way possible. Therefore, we request the Acting Assistant Secretary reconsider her position on Recommendation 1.a and provide comments on the final report.

Regarding Recommendation 1.b, the DoD Manual conflicts with BRAC 2005 Recommendation 176 because it allows the Military Services to acquire consumables under a PBL or CLS contract as long as the spare part is unique to the weapon system. If the cost-benefit analysis determines that the procurement

responsibility for all H-60 spare parts, including those procured under PBL and CLS contracts, should be transferred to the DLA, the Acting Assistant Secretary should update DoD Manual 4140.26, Volume 2 regarding spare parts procurements.

The Acting Assistant Secretary did not address whether OUSD(AT&L) would notify Congress if it decides not to transfer the procurement responsibility to DLA.

Congress should be notified and if it allows the Military Services to procure spare parts through PBL and CLS contracts, then OUSD(AT&L) would not need to update DoD Manual 4140.26. Therefore, we request the Acting Assistant Secretary provide additional comments to Recommendations 1.b and 1.c.

## ***Recommendation 2***

**We recommend that the Director, Defense Logistics Agency collect and analyze data related to H-60 spare parts contracts and purchase orders and take steps to consolidate the Defense Logistics Agency's H-60 spare parts procurements, where practicable to take advantage of quantity discounts and reduce administrative costs.**

### ***Defense Logistics Agency Comments***

The Director, DLA Acquisition, responding for the Director, DLA, agreed, stating that the DLA has and will continue to analyze data related to H-60 spare parts contracts and purchase orders. For consumable spare parts managed by the DLA, customer requirements are aggregated and the planning system develops the most cost effective buying patterns, which consider factors such as projected spend, customer demand, projected future buys, and current asset position. Twenty-seven percent of all H-60 items are on a long-term contract or are planned for a long-term contract in FY 2017. In addition, DLA is working closely with the Army and the contractor to transition from the Army's H-60 support contract to DLA support in November 2017. This transition will aggregate the majority of H-60 spare part procurement within the DLA.

### ***Our Response***

The Director fully addressed the specifics of the recommendation, and no further comments are required.

## Appendix A

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### Scope and Methodology

We conducted this performance audit from January 2016 through August 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### ***Contract and Spare Parts Universe***

We interviewed Army, Navy, Air Force, SOFSA, SOCOM, and DLA officials to obtain a universe of DoD contracts and purchase orders that procured H-60 spare parts. The Military Activities and DLA identified 2,136 contracts and purchase orders. We reviewed the 10,047 unique spare parts procured on these contracts and purchase orders to determine if DoD was effectively managing the procurement of H-60 spare parts. Specifically, we determined whether DoD procured or planned to procure the same H-60 spare parts under separate contracts.

Our review included spare-part procurements from February 1, 2015, through January 31, 2016. We selected this date range to allow for the review of a large number of procurements, while allowing us to compare prices paid. The Army, SOFSA, SOCOM, and DLA procured a total quantity of 2,941,639 H-60 spare parts. The Army, SOFSA, and SOCOM identified the contractor used for each spare-part procurement. DLA provided a contractor identification number or Commercial and Government Entity (CAGE) code that we used to identify the contractor.

We also included 1,684 spare parts that the Navy could have purchased on one contract and 2,522 spare parts the Army planned to buy on one contract from February 2015 through January 2016. We included these spare parts in our universe because there was a potential that the Navy and Army procured these spare parts within the period of our review. Specifically, the Navy's PBL contractor determined which H-60 consumables to procure to support H-60 repairs as well as new DLRs that were needed to replace those that could not be repaired. The Navy did not track the H-60 consumables or DLRs the contractor procured. In addition, the Army had anticipated demand to procure spare parts under its CLS contract.

### ***Contract and Procurement Consolidation Requirements***

To determine whether the Military Activities and DLA effectively managed and consolidated H-60 spare parts procurements, we reviewed applicable regulations and guidance including:

- 10 U.S.C. § 2384a;
- 2005 DoD BRAC Report, Volume 1, Part 1, “Results and Processes,” May 2005, and Part 2, “Detailed Recommendations,” May 2005;
- DoD Manual 4140.26, Volume 2, “DoD Integrated Materiel Management (IMM) for Consumable Items: Item Management Coding (IMC) Criteria,” September 24, 2010;
- Office of the Deputy Under Secretary of Defense (Installations and Environment) “Base Redevelopment and Realignment Manual,” March 1, 2006;
- Office of the Deputy Under Secretary of Defense (Installations and Environment) “Report on 2005 Defense Base Closure and Realignment Implementation,” November 2013; and
- Supply and Storage Joint Cross Service Group meeting minutes from March 2003 through June 19, 2006.

In addition, we interviewed officials from the following offices on BRAC Recommendation 176 and its impact on spare parts procurements.

- Assistant Secretary of Defense for Logistics and Materiel Readiness
- Assistant Secretary of Defense for Energy, Installations, and Environment
- Defense Procurement and Acquisition Policy
- DLA
- Naval Supply Systems Command Weapon Systems Support

### ***Consolidation Analysis for Contract and Spare Parts***

We used the list of H-60 spare parts procured and those that could have been procured to determine the effect of H-60 spare parts procurement consolidation. We determined if any spare parts were purchased or could have been purchased by at least two different Military Activities or the same activity on at least two different contracts. There were 1,319 instances where this occurred or could have potentially occurred for the 1-year period reviewed.



We interviewed military and DLA officials to determine whether they coordinated with another buying office and why a DLA contract was not used. For these same spare parts, we obtained the Army, SOFSA, and DLA prices paid and compared the prices for each spare part. The analysis resulted in 1,319 unit price comparisons. We did not make any price comparisons for the Navy PBL because the contract price was based on availability of the H-60 and not total quantity of spare parts procured.

## **Use of Computer-Processed Data**

We relied on computer-processed data from:

- Electronic Document Access (EDA),
- Electronic Business System (EBS),
- Logistics Modernization Program (LMP),
- Integrated Technical Item Management and Procurement (ITIMP),
- System for Award Management (SAM), and
- Web Federal Logistics Information System (WebFLIS).

To determine if we could rely on the EBS, LMP, and ITIMP data, we used acceptance sampling methodology with a 90 percent confidence level and 5 percent upper limit error rate. If zero material errors were found in the sample, we concluded that there were 5 percent or less errors in the population and the computer-processed data was reliable to use in the audit.

### ***Electronic Document Access***

EDA is a web-based system that stores contracts, contract modifications, and delivery orders. We used EDA to obtain the base contracts, modifications, and delivery orders for the procurement actions awarded by the Military Activities and DLA. We discussed the contracts and delivery orders with contracting officials and compared the EDA documentation to spreadsheets provided by these officials to ensure the accuracy of the EDA documentation. We determined that the data within EDA were sufficiently reliable for the purposes of our audit.

### ***Enterprise Business System***

EBS is DLA's primary information technology system for order fulfillment, planning, procurement, technical quality, and finance. We used EBS to review the lists of H-60 spare parts and DLA procurement data. We performed data reliability tests by comparing EBS procurement data to the contract documentation for a statistical sample of 45 procurement actions. We found no material deviations and determined that the EBS data were sufficiently reliable for the purposes of our audit.

### ***Logistics Modernization Program***

LMP is the Army's fully integrated supply chain, maintenance, repair and overhaul, planning, execution, and financial management system. We used LMP to review a list of H-60 spare parts purchased under contract number W58RGZ-13-D-0001 and on the Army contract actions. We performed data reliability testing on both LMP lists. We compared LMP procurement data to invoices for a statistical sample of 45 procurement actions. In addition, we compared the contract actions identified by LMP to contract documentation for a statistical sample of 45 contract actions. We found no material deviations and determined that the LMP data were sufficiently reliable for the purposes of our audit.

### ***Integrated Technical Item Management and Procurement***

ITIMP is DLA's automated procurement system. We used ITIMP to review a list of H-60 procurement transactions for DLA contracts and purchase orders. We performed data reliability tests by comparing the ITIMP procurement data to contract documentation for a statistical sample of 45 procurement actions. We found no material deviations and determined that the ITIMP data were sufficiently reliable for the purposes of our audit.

### ***System for Award Management***

SAM is a system in which contractors can register to conduct business with the Government. Registered contractors are assigned a CAGE code. We used SAM to identify the contractor names associated with each CAGE code. We performed data reliability tests by comparing the CAGE code and contractor name identified in SAM to the contractor name identified within the contract documentation for a statistical sample of 45 procurement actions. We found no material deviations and determined that the SAM data were sufficiently reliable for the purposes of our audit.

## **Web Federal Logistics Information System**

WebFLIS is a DLA website that provides information on supply items to include the part number and the national item identification number. We used WebFLIS to identify the national item identification numbers for the spare parts purchased under SOFSA contract number H92254-09-D-0001. We attempted to perform data reliability tests by comparing the information within WebFLIS to source documentation for 45 statistically sampled spare parts. We could not identify comparable information independently or after requesting system or source documentation from SOFSA officials. Even though the reliability of the WebFLIS data was not established, we determined that there was no material effect on our findings and conclusions.

## **Prior Coverage**

During the last 10 years, GAO and the DoD OIG issued six reports discussing the consolidation of procurements and BRAC Recommendation 176 on the transfer of supply functions. Unrestricted GAO reports can be accessed at <http://www.gao.gov>. Unrestricted DoD OIG reports can be accessed at <http://www.dodig.mil/pubs/index.cfm>.

## **GAO**

Report No. GAO-16-375SP, “2016 Annual Report: Additional Opportunities to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits,” April 13, 2016. This was the sixth report in a series and identified areas where a broad range of federal agencies may be able to achieve greater efficiency or effectiveness. One of those areas was for DoD to better leverage its buying power and achieve additional savings by using more strategically sourced contracts.

Report No. GAO-11-318SP, “Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue,” March 1, 2011. This was the first report in the series and identified federal programs, agencies, offices, and initiatives which have duplicative goals or activities. The report identified that unjustified duplication among available contracts could result in increased costs to the Government.

Report No. GAO-08-121R, “Military Base Realignments and Closures: Transfer of Supply, Storage, and Distribution Functions from Military Services to Defense Logistics Agency,” October 26, 2007. This report identified what efforts were made to determine which supply-related functions would transfer to DLA under BRAC, the Military Services concerns regarding those transfers, the extent to which DLA’s plans to establish a transfer process that minimized disruptions in depot maintenance, and the associated estimated costs and savings.

**DoD OIG**

Report No. DODIG-2012-004, "Changes Are Needed to the Army Contract With Sikorsky to Use Existing DoD Inventory and Control Costs at the Corpus Christi Army Depot," November 3, 2011. This report identified that Sikorsky's H-60 spare parts contract prices were \$7.6 million, or 85.1 percent, higher than DLA prices for 3,267 parts.

Report No. D-2011-061, "Excess Inventory and Contracting Pricing Problems Jeopardize the Army Contract with Boeing to Support the Corpus Christi Army Depot," May 3, 2011. This report identified that Boeing contract prices for Apache and Chinook weapon system spare parts were \$8.0 million, or 51.2 percent, higher than DLA prices for 1,635 parts.

Report No. D-2010-063, "Analysis of Air Force Secondary Power Logistics Solutions Contract," May 21, 2010. This report identified that the contract reviewed was not consistent with BRAC recommendations to transfer procurement management and distribution functions to DLA.

## Appendix B

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### BRAC Recommendation 176

The BRAC Commission recommended the following:

Realign Soldier Systems Center, Natick, MA, by relocating the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Philadelphia, PA, and reestablishing them as Defense Logistics Agency Inventory Control Point functions and by disestablishing the procurement management and related support functions for depot-level repairables and designating them as Defense Supply Center Philadelphia, PA, Inventory Control Point functions.

Realign Detroit Arsenal, MI, by relocating the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Columbus, OH, and reestablishing them as Defense Logistics Agency Inventory Control Point functions, and by disestablishing the procurement management and related support functions for depot-level repairables and designating them as Defense Supply Center Columbus, OH, Inventory Control Point functions.

Realign Rock Island Arsenal, IL, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Columbus, OH, and reestablish them as Defense Logistics Agency Inventory Control Point functions; relocate the procurement management and related support functions for depot-level repairables to Detroit Arsenal, MI, and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the remaining integrated materiel management, user, and related support functions to Detroit Arsenal, MI.

Realign Ft. Huachuca, AZ, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items to Defense Supply Center Columbus, OH, and designate them as Defense Logistics Agency Inventory Control Point functions; relocate the procurement management and related support functions for depot-level repairables to Aberdeen Proving Ground, MD, and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the remaining integrated materiel management, user, and related support functions to Aberdeen Proving Ground, MD.

Realign Naval Support Activity Mechanicsburg, PA, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items, except those Navy items associated with Nuclear Propulsion Support, Level 1/ Subsafe and Deep Submergence System Program (DSSP) Management, Strategic Weapon Systems Management, Design Unstable/Preproduction Test, Special Waivers, Major End Items and Fabricated or Reclaimed items to Defense Supply Center Columbus, OH, and reestablish them as Defense Logistics Agency Inventory Control Point functions; disestablish the procurement management and related support functions for depot-level repairables and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight of procurement management and related support functions for depot-level repairables to the Defense Logistics Agency, Fort Belvoir, VA.



Realign Marine Corps Base, Albany, GA, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for any residual Consumable Items to Defense Supply Center Columbus, OH, and reestablish them as Defense Logistics Agency Inventory Control Point functions; disestablish the procurement management and related support functions for depot-level repairables and designate them as Defense Supply Center Columbus, OH, Inventory Control Point functions; and relocate the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight of procurement management and related support functions for depot-level repairables to the Defense Logistics Agency, Fort Belvoir, VA.

Realign Naval Support Activity Philadelphia, PA, Tinker Air Force Base, OK, Hill Air Force Base, UT, and Robins Air Force Base, GA, by relocating the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items, except those Navy items associated with Design Unstable/Preproduction Test, Special Waivers and Major End Items to Defense Supply Center Richmond, VA, and reestablishing them as Defense Logistics Agency Inventory Control Point functions, and by disestablishing the procurement management and related support functions for depot-level repairables and designating them as Defense Supply Center Richmond, VA, Inventory Control Point functions.

Realign Redstone Arsenal, AL, as follows: relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Aviation Consumable Items to Defense Supply Center Richmond, VA, and reestablish them as Defense

Logistics Agency Aviation Inventory Control Point functions; disestablish the procurement management and related support functions for Aviation depot-level repairables and designate them as Defense Supply Center Richmond, VA, Aviation Inventory Control Point functions; relocate the Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, and Integrated Materiel Management Technical Support Inventory Control Point functions for Missile Consumable Items to Defense Supply Center Columbus, OH; reestablish them as Defense Logistics Agency Missile Inventory Control Point functions; disestablish the procurement management and related support functions for Missile depot-level repairables and designate them as Defense Supply Center Columbus, OH, Missile Inventory Control Point functions; and realign a portion of the remaining integrated materiel management, user, and related support functions necessary to oversee the Inventory Control Point activities at Aberdeen Proving Ground, MD, Detroit Arsenal, MI, Soldier System Center, Natick, MA, and Redstone Arsenal, AL, to Headquarters Army Materiel Command (AMC).

Realign Wright-Patterson Air Force Base, OH, by relocating the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight of procurement management and related support functions for depot-level repairables to the Defense Logistics Agency, Fort Belvoir, VA.

Realign Fort Belvoir, VA, by assigning the oversight of Budget/Funding, Contracting, Cataloging, Requisition Processing, Customer Services, Item Management, Stock Control, Weapon System Secondary Item Support, Requirements Determination, Integrated Materiel Management Technical Support Inventory Control Point functions for Consumable Items and the oversight of procurement management and related support functions for depot-level repairables to the Defense Logistics Agency, Fort Belvoir, VA.

## Management Comments

### Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics



LOGISTICS AND  
MATERIEL READINESS

OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

SEP 19 2016

MEMORANDUM FOR PROGRAM DIRECTOR FOR ACQUISITION AND SUSTAINMENT  
MANAGEMENT, OFFICE OF THE INSPECTOR GENERAL

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *MS 9/19/16*

SUBJECT: Consolidation Needed for Procurements of DoD H-60 Helicopter Spare Parts  
(Project No. D2016-D000AT-0076.000)

As requested, I am providing responses to the recommendations contained in the subject report.

**Recommendation 1:** The Office of the Inspector General (OIG) recommends the Under Secretary of Defense for Acquisition, Technology, and Logistics:

- a. Perform a cost-benefit analysis to determine whether the procurement responsibility for all H-60 spare parts, including those procured under performance-based logistics and contractor logistics support contracts, should be transferred to the Defense Logistics Agency (DLA), as originally required by Base Realignment and Closure Act 2005 Recommendation 176.
- b. Review and update DoD's policy, specifically DoD Manual 4140.26, Volume 2, Enclosure 2, Section 2.d, based on decisions made in response to Recommendation 1.a regarding the procurement of depot-level reparable and consumable spare parts to include those procured under performance-based logistics and contractor logistics support contracts.
- c. Notify Congress if DoD determines it will not transfer the procurement responsibility to DLA.

**Response to 1a:** Non-concur. BRAC 2005 Recommendation 176 directing responsibility for procurement of depot-level repairable parts to DLA does not apply to performance-based logistics (PBL) and contractor logistics support (CLS) repair contracts. PBL and CLS contracts are not simple procurement contracts for the acquisition of parts, rather they are contracts that deliver an outcome based product support strategy that plans and delivers an integrated, affordable performance solution that optimizes weapon system readiness. PBL and CLS contracts focus on the ability of the support solution to affordably satisfy the war fighter's requirements, usually expressed in terms of availability, not on the consumption of resources or who performs the work. Efficiencies are gained when the contractor makes the repair/replace decision as part of the contracted product support strategy, incentivizing the provider to find the most cost-efficient solution. The draft report does not consider readiness driven contracting decisions. In addition, Cost-Benefit Analyses (CBAs) are required as part of the Component decision-making process prior to award of a PBL or CLS contract. Requiring the Department to conduct a department-wide CBA would be, in large part, redundant of these CBAs already

## Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics (cont'd)

conducted, and is not feasible given the varying sustainment requirements of the individual Services. The Department will follow-up by letter to the Military Services to ensure that basic procurements of spare parts managed by the Services is consolidated and sent to DLA for contracting action as required by BRAC 2005.

**Response to 1b:** Non-concur. DoDM 4140.01, DoDM 4140.26, and DoDM 4140.68 address government managed inventory, unless otherwise specified, and are consistent with BRAC 2005. The Department will follow-up by letter to the Military Services to ensure that basic procurement of spare parts managed by the Services is consolidated and sent to DLA for contracting action as required by BRAC 2005.

**Response to 1c:** Non-concur. See response to 1a above. BRAC 2005 Recommendation 176 directing responsibility for procurement of spare parts to DLA does not apply to PBL and CLS contracts. As noted in the draft DoDIG report, DLA certified that DoD completed all actions related to BRAC Recommendation 176 in September 2011.

Please contact [REDACTED] if additional information is required.



Kristin K. French  
Acting Assistant Secretary of Defense  
for Logistics and Materiel Readiness

cc:  
DLA/OIG

## Defense Logistics Agency




DEFENSE LOGISTICS AGENCY  
HEADQUARTERS  
8725 JOHN J. KINGMAN ROAD  
FORT BELVOIR, VIRGINIA 22060-6221

SEP 16 2016

MEMORANDUM FOR THE DEPARTMENT OF DEFENSE INSPECTOR GENERAL

SUBJECT: Response to DoD IG Draft Report "Consolidation Needed for Procurements of DoD H-60 Helicopter Spare Parts" (Project No. D2016-D000AT-0076.000)

Attached is the DLA's response to the subject Draft Report. We appreciate the opportunity to review and comment on the finding and recommendations. The point of contact for this audit is [REDACTED], DLA Office of the Inspector General, [REDACTED] DSN [REDACTED] or email: [REDACTED].

  
MATTHEW R. BEEBE  
Director, DLA Acquisition

Attachment:  
As stated



## Defense Logistics Agency (cont'd)

The Department of Defense Inspector General recommends that the Director, Defense Logistics Agency (DLA):

Recommendation 2: Collect and analyze data related to H-60 spare parts contracts and purchase orders and take steps to consolidate the Defense Logistics Agency's H-60 spare parts procurements where practicable to take advantage of quantity discounts and reduce administrative costs.

DLA Response Recommendation 2: Concur. DLA has and will continue to analyze data related to H-60 spare parts contracts and purchase orders. For consumable items managed by DLA, customer requirements are aggregated and the most cost effective buying patterns are developed through the use of our planning system which considers multiple factors such as: projected spend, customer demand, projected future buys, and current asset position. Twenty-seven percent of all H-60 items are on long term contract or are planned for a long term contract in Fiscal Year 2017. In addition, DLA is working closely with the Army and Sikorsky to transition from the Army's H-60 support contract with Sikorsky to DLA support in November 2017. This transition will aggregate the majority of H-60 spare part procurement within DLA.



## Acronyms and Abbreviations

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<b>BRAC</b>	Base Realignment and Closure
<b>CAGE</b>	Commercial and Government Entity
<b>CLS</b>	Contractor Logistics Support
<b>DLA</b>	Defense Logistics Agency
<b>DLR</b>	Depot-Level Repairable
<b>EBS</b>	Enterprise Business System
<b>EDA</b>	Electronic Document Access
<b>ITIMP</b>	Integrated Technical Item Management and Procurement
<b>LMP</b>	Logistics Modernization Program
<b>OUSD(AT&amp;L)</b>	Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics
<b>PBL</b>	Performance-Based Logistics
<b>SAM</b>	System for Award Management
<b>SOCOM</b>	Special Operations Command
<b>SOFSA</b>	Special Operations Forces Support Activity
<b>WebFLIS</b>	Web Federal Logistics Information System

# **Whistleblower Protection**

## **U.S. DEPARTMENT OF DEFENSE**

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